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FM AMEMBASSY ASHGABAT

TO RUEHC/SECSTATE WASHDC PRIORITY 4217

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

RUCNCIS/CIS COLLECTIVE

RUCNMEM/EU MEMBER STATES COLLECTIVE

RUEHAK/AMEMBASSY ANKARA 6239

RUEHBJ/AMEMBASSY BEIJING 3915

RUEHKO/AMEMBASSY TOKYO 3774

RUEHIT/AMCONSUL ISTANBUL 4483

RUEKJCS/Joint STAFF WASHDC

RUEAIIA/CIA WASHDC

RUCPDOC/DEPT OF COMMERCE WASHDC

RHEFDIA/DIA WASHDC

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RUCNDT/USMISSION USUN NEW YORK 1477

RUEHVEN/USMISSION USOSCE 4389

C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000188

SIPDIS

STATE FOR SCA/CEN; EEB;
ENERGY FOR EKIMOFF/BURPOE/COHEN
COMMERCE FOR DSTARKS/EHOUSE

E.O. 12958: DECL: 02/10/2020

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SUBJECT: MALAYSIA'S PETRONAS CONTINUES TO INVEST IN
TURKMENISTAN

REF: 09 ASHGABAT 661

Classified By: Charge Sylvia Reed Curran for reasons 1.4 (b) and (d).

¶1. (C) On February 9, econoff met with Malaysian energy company Petronas' General Director for Turkmenistan Yeow Kian Chai. He characterized his company's work in Turkmenistan as "really tough," but emphasized that Petronas was one of two foreign energy companies that are currently producing oil and/or gas under offshore production sharing agreements (PSA) with the Government of Turkmenistan (GOTX). (NOTE: The UAE-based Dragon Oil currently produces oil in the Cheleken contractual territory. END NOTE.) He stated that Petronas has been working on developing offshore oil and gas resources in Block 1 of Turkmenistan's territory in the Caspian Sea since 1997 (reftel). He described the geology in Block 1 as "tricky," adding that it has taken 13 years to yield a mere 6,000 barrels of oil a day, which is not a profit-turning volume. In addition to oil production, the company plans to transport associated gas from Block 1 fields to its gas processing plant in Kyanli (40-50 km away from the gas source) via small pipelines. He estimated that the company has already spent close to \$3 billion in Turkmenistan, acknowledging that it has yet to primary gas deposits.

¶2. (C) The Petronas general director explained that more oil will be produced, once associated gas is lifted from the wells. He predicted that Petronas would have primary gas production by the end of Q1 in 2010, and estimated that it would be able to produce 5 billion cubic meters (bcm) of gas by the end of 2010 or the first part of 2011. Once drilling reaches primary gas deposits, the company hopes to increase oil production to 12,000 barrels per day. He stressed that Turkmenistan's landlocked geography and the absence of a trans-Caspian pipeline meant that Petronas' predicted 5 bcm of gas for 2010 would most likely be sent North to Russia via existing pipelines. In addition, he did not know if Russia's intention to purchase only 10.5 bcm of gas from Turkmenistan in 2010 would result in Petronas's inability to offload its

gas to Russia, especially if the GOTX planned to fill the 10.5 bcm order with its own gas. He was confident that some kind of arrangement would be made to ensure that Petronas could unload its gas "somewhere," but he was unable to provide more details.

¶3. (C) When asked if Petronas had plans to seek out additional projects in the country, the company general director responded that it remains vigilant in searching for opportunities. He ruled out any onshore gas projects, however, stressing that the GOTX gave Petronas "an emphatic no" on proposals involving onshore production. He underscored that the GOTX currently views all onshore gas production as something the GOTX can do on its own, or with service companies only. At the same time, he felt that Petronas' longstanding commercial relationship with the GOTX could provide the company with another offshore block, if Petronas chose to pursue one. He thought that partnering with another international oil company to pursue an additional Caspian block was a definite possibility, adding that talks with potential European and U.S. partners were ongoing.

¶4. (C) According to the general director, Petronas employees approximately 600 workers, with less than 100 expats. He cited the GOTX's requirement that a foreign company's workforce must comprise 70 percent Turkmen citizens, adding that Petronas plans to downsize its expat cadre even more, since the incentive package needed to entice expats to Turkmenistan is too costly. Moreover, one of Petronas' biggest investments in the country is training Turkmen

ASHGABAT 00000188 002 OF 002

employees as highly skilled technicians, engineers, and field managers. He lamented that the Turkmen workforce was highly undereducated and undertrained, but stressed that Petronas has successfully sent Turkmen employees to Malaysia for training or provided on-site training in Turkmenbashi and Kiyalin. He also noted the company's scholarship program, which allows recipients to complete 2-year masters degrees in or outside Turkmenistan in appropriate technical disciplines.

(NOTE: In 2008, President Berdimuhamedov reinstated a graduate-level degree in Oil and Gas Development at the Turkmen Polytechnic Institute, which was previously closed by former President Niyazov. The program accepts few students, is reportedly significantly weaker than similar programs in Russia, and currently only graduates 2-3 students per year.
END NOTE)

¶5. (C) COMMENT: Petronas is a large energy company with operations in 30 countries. The company has been present in Turkmenistan for 14 years, but has had little reason to celebrate its results to date. When comparing operations in Turkmenistan with the company's operations in other countries, the country general director stated that Turkmenistan "is one of the toughest places to do business in the world." At the same time, Petronas has no plans to leave Turkmenistan anytime soon, citing the country's potential and untapped hydrocarbon resources. Like many foreign energy companies in the country, Petronas is working hard to train and educate its Turkmen workforce, especially since the company understands that a long-term commitment to Turkmenistan is generally a prerequisite for future business.

END COMMENT.

CURRAN